

I. INDIRECT REDUCTIONS AND OTHER EFFICIENCIES

1. Comments/Questions Concerning Indirect Costs

- Contractor overhead costs are \$30 million a year more, actually \$35 million more, than the DOE discloses to the public and Congress. The actual cost of contractor overhead and indirect costs this year is going to be \$277 million when you include the profit or fee award that they get on their overhead activities. That equals 32.4% of the total dollars given to Fluor Daniel and the PHMC Contractors. So, basically one out of every three cleanup dollars given to Fluor Daniel goes to these overheads, not to cleanup work. Can we find more efficiency? You bet! We should hold them down to the level they disclosed in Lloyd Piper's slide. When Lloyd put up a slide and showed contractor overhead costs going down, what he didn't disclose to you is that the DOE claims that they cannot live with Adam Smith's (Congressman from Federal Way) proposed legislation which would cap their overhead costs at 30% of every dollar given to the contractor. How many people here think that the disclosure should include the profit payment on overhead costs? Raise your hand. Anyone in the public who doesn't think that the disclosure should include the profit payment on overhead costs when you put up a slide showing the overhead costs, raise your hand. (No one raised their hand) (Gerald Pollet, Heart of America, Portland, Seattle, Spokane Public Meetings)
- \$30 million is being spent for extra contractor overhead. I believe that's for Fluor Daniel. And they spent 32% of every dollar that they have for their own overhead. That's unconscionable. (Danielle Doyle, Seattle Public Meeting)

DOE-RL Response:

DOE does not agree with the statements made by Mr. Pollet.

Mr. Pollet is incorrectly identifying service center costs as "overhead", and stating these costs are "not cleanup work". This is simply not true.

The cleanup effort performed by these service centers include Dry Waste Disposal, Solid Waste Storage and Disposal; Sampling Laboratories such as 222S/WSCF; Standards Laboratory, Sampling Operations...etc. This is not overhead, but real cleanup work.

These activities are included as service centers because it is more efficient to centralize these services and charge them to each project that uses them, versus each project providing these services themselves. By centralizing these costs we are being more efficient. Simply stated, the accounting methods used to charge for these services do not turn them into "overhead" as Mr. Pollet claims.

The service center costs represent approximately 13% of the total PHMC budget.

The real overhead costs are those that are administrative in nature, and are incurred in order to operate the business, or specific clean-up projects. These costs include the President's office, legal staff, financial staff, human resources, taxes, insurance, environmental safety and health services, as well as project specific costs such as project management. These are all required to run the cleanup projects. For example, how much work would get done without a payroll department issuing paychecks? How long would the State let us operate if we didn't pay taxes? How much work would get done without project managers?

The overhead costs represent only 14% of the total PHMC budget, not the 32.4% claimed. In addition, 14% is reasonable for a company of this size performing highly regulated work.

Mr. Pollet claims DOE cannot live with the proposed legislation to cap overhead costs at 30%. This is not true. As explained above, the "overhead" costs for the PHMC are only 14%, so a 30% cap on overhead is not an issue.

In reality, the proposed legislation was modified to require the Defense Contract Audit Agency (DCAA) to audit the integrity of the Fluor-Daniel Hanford (FDH) accounting records. This audit was recently completed and DCAA concluded: "we consider the FDH accounting system adequate for the accumulation and reporting of costs on the PHMC". This audit helps substantiate the fact the total overhead and service center costs have been reduced by 42% between FY 1994 and so far in FY 1999, due to the reduction efforts of DOE and its contractors.

The \$35M referred to is an adjustment factor used only for comparing WHC costs to PHMC costs. It is an adjustment to make the comparison between the different contract structures fair. Since the purpose of the public budget briefings was to discuss the FY 2001 PHMC budget, the \$35 million adjustment is not relevant.

The fact is DOE and its contractors have made significant progress in becoming cost effective, and every dollar sent to Hanford contributes more to environmental clean up than ever before.

2. Comments/Questions Concerning the Need for Efficiencies

- We are convinced that DOE can find more efficiencies in program baselines. DOE and its contractors have found significant efficiencies in the indirect budgets since 1994. The same intense "scrubbing" needs to be applied to the other base programs which would produce additional funds to put towards on-the-ground cleanup efforts. As discussed at our recent Senior Executive Committee (SEC) meeting, Ecology and EPA continue to believe that efficiencies can be gained by cutting. (EPA & Ecology)**

- Demand efficiency from the DOE and its contractors, but do not allow the cleanup mission to go underfunded. The effort needed on the front end to push the cleanup process should not be wasted by underfunding the remediation phase of the process. All efforts at efficiency will be squandered if the process lurches along. (Jack Spadaro, Portland, OR)
- We recognize that the Department of Energy, Richland Operations Office, must submit a decrement level budget proposal as required by DOE Headquarters. Before making tough choices on prioritization, the Department must be confident that baseline budgets in all program areas have been scrubbed for efficiencies. It is our understanding from the Environmental Protection Agency that a thorough analysis was not done prior to the beginning of this budget process. Such an analysis is extremely important if the budget document is to be considered credible. (Hanford Communities)
- Funds expended in the employment of private contractors should be administered with maximum cost effectiveness in cleaning up and closing down the Hanford facility. (Al Rasmussen, Seattle, WA)

DOE-RL Response:

Some of the indirect reductions have been due to efforts on the part of the direct projects to be more efficient in their use of services that are classified as indirect and included in the “pools”. This would include situations where the projects are charged directly for the amount of services actually used (“pay by the drink”), not a rate or allocation.

DOE and its contractors have found significant efficiencies in the direct budgets since 1994 as well. In 1996, RL closed out the St. Louis commitment to save \$2.3 billion in project costs from FY 1995 – FY 1998, based on the multi-year workplans that were approved in late FY 1994. A total of \$2.8 billion savings was reported against the goal; this included workscope that was deleted from the baseline because it was no longer necessary to accomplish the planned outcome, and actual efficiencies that were achieved during FY 1995 and reflected in the baselines as updated for the rest of the period. RL has continued to track and report cost savings each year based on the process that was reviewed by Arthur Andersen in FY 1995. Since that time, RL has reported an additional \$530 million of cost savings gained through efficiencies and work deletions, through 1998. The impacts of those savings in future years have not been included in this number; the savings will be reported in each fiscal year as appropriate.

Guidance was issued in September 1998, to implement an independent baseline review process to ensure that baselines are objectively reviewed by RL for accuracy, completeness, and achievability. The policy guidance addresses responsibilities, criteria for when reviews are to be conducted, requirements for independence,

documentation requirements, and integration with the annual budget validation process.

Many of the Hanford project baselines have undergone extensive reviews in the past and this guidance is an effort to formalize the process and to ensure that independent baseline reviews continue. The process establishes criteria to ensure that initial baselines are reviewed and that follow-on reviews will be conducted as necessary. The need, frequency and depth of each review is established by considering minimum requirements for conducting specific reviews or by using a graded approach to consider the maturity of scope definition, the nature of the activities being reviewed and the risks associated with the baselines. Minimum criteria for when independent reviews should be performed are established based on the cost impacts of baseline changes, critical project decision points and the time lapse since the last overall project review.

To preserve independence, personnel (DOE and DOE independent contractors) outside the RL project operating organization will conduct reviews to assess reasonableness of the technical approach and project scope, cost and schedule baselines, and to assess the potential for cost and/or schedule improvement. The review teams are selected for their capabilities to address the technical disciplines involved, as well as systems and performance analysis, project management and cost estimating. Organizations that have been used include DOE-HQ, U. S. Army Corps of Engineers, Project Time & Cost, ICF Kaiser, Team Associates, PAC, PAI, Environmental Protection Agency and Washington State Department of Ecology. Each review effort is documented in a report and status information about all review activities is maintained for the Site.

- **These costs continue to be projected to be reduced, with a reduction of \$14 million proposed between FY1999 and FY2001. When adjusted to include fees for indirect funded activities and the overhead costs of the Enterprise Companies (ENCOs), the FY1999 Project Hanford Management Contract (PHMC) budget for overhead, service centers and indirects is now forecast at \$277 million. The disclosed figure should reflect enterprise company overhead and fees, indirect activities, and a breakout of common support pools. The site should continue to identify lower targets. The HAB recommends examinations of costs, consideration of the scope of computer upgrades and related contracts, and reduced subsidy of offsite waste. (Hanford Advisory Board, Consensus Advice #94)**

DOE-RL Response:

DOE is thankful the HAB recognizes the reductions DOE and its contractors have made in overhead and service center costs. However, DOE does not agree with the specific advice that “the disclosed figure should reflect enterprise company overhead and fees, indirect activities, and a breakout of common support pools”, or that the planned reduction between FY 1999 and FY 2001 is \$14 million.

The reduction between FY 1999 and planned FY2001 is actually \$25 million, not \$14 million. The FY 1999 starting budget was \$253 million. The FY 2001 budget target is \$228 million. $\$253 - \$228 = \$25$ million potential reduction on a consistent basis.

The HAB should understand major reductions beyond these targeted reductions are not likely. These costs have been reduced approximately 38% between FY1994 – FY1998, and the FY 2001 budget target will require that reduction to increase to 47% on a consistent basis. While reduction efforts will continue, we cannot maintain this rate of reduction. In fact, certain costs may begin to increase and the costs of service pools included in the target can go up.

DOE does not agree the estimated costs for the enterprise company overhead and fees should always be included in our budget discussions. These estimates were prepared only to compare the PHMC costs to the old Westinghouse Hanford Costs. This was done to show the significant reductions in overheads and service centers since FY 1994. Adding these costs into discussions on PHMC budgets would be comparing apples to oranges. The FY2001 budget data represents how the budget is prepared and the Integrated Priority List is completed. To add costs that do not relate to the budget request or the IPL adds unnecessary confusion.

In addition, these estimates are now two years old and the actual costs have most likely decreased as the enterprise companies have increased the amount of commercial work and continued to streamline their operations. To validate what the current amounts are, considerable audit and contractor resources would be needed, yet the data generated would be of extremely limited value. For example, performing the audits to validate if the enterprise company overhead charged differently than the Westinghouse methods is \$17 million or \$10 million, would only result in DOE revising its cost reduction number from \$165 million to \$172 million. Expending the resources for this rather than doing cleanup does not seem to be a good use of funds.

- *DOE has much work to do in improving efficiency and lowering costs. The HAB is concerned that the 2006 Plan dropped the proposed limit on each site's management, contract, and overhead costs. Hanford has reduced overhead and indirect costs and has promised DOE-HQ to continue to identify and work to attain a lower target for those costs. While Hanford's contractor overhead and indirect costs have come down, doing so at other DOE sites would make more funds available for cleanup everywhere. (Hanford Advisory Board, Consensus Advice #94)*

DOE-HQ Response:

The DOE agrees that we have much work to do in improving efficiency and lowering costs, however, as with Hanford, many of the other sites have also made

significant progress in controlling support costs. The actual target for support costs was dropped from the 2006 Plan because although reducing these costs is important, this is a case where “one size does not fit all.” Depending on a site’s current mission and the nuclear materials at a site, the support costs to deal with these issues can vary significantly. Some incorrectly believe that support costs are synonymous with low value work. All mission work needs some support work so that the work can be done effectively and safely. However, too much support costs can be wasteful as noted in the comment. Rather than establishing a single number for the entire complex, the DOE is working to establish site specific support cost targets. This will allow a site to have a target and work toward but it should not jeopardize any of the mission work by cutting support activities too far.

Commitments have been made by other sites on cost reductions in this area and work is continuing to report progress in this area. As the DOE continues to make progress in reducing support costs, we will be able to apply a higher percentage of our funding to accomplish more cleanup work across the complex. The DOE is working to further develop a systematic process for reducing these costs. In 1996 a prototype was developed to track and report these costs. In 1997 and 1998 data has been submitted by the largest 22 contractors across the entire DOE complex. Currently more than \$12 billion is reported in this system. The DOE has shared the results of this system with General Accounting Office, Office of Management and Budget and with Congress. The DOE appreciates the interest in this area and will continue to work to direct a higher percentage of our funding into mission work in the future.

- DOE should evaluate redundant staffing and management between the M&I contractor and DOE as a possible way of reducing costs. (Hanford Advisory Board, Consensus Advise #94)
- DOE and contractor redundancy for planning and integration is estimated to be \$30 million duplication per year. This is waste. This needs to be cut. (Gerald Pollet, Heart of America, Portland, Seattle, Spokane Public Meetings)

DOE-RL Response:

DOE-RL does not believe there is a functional overlap between Federal oversight and contractor integration. However, in the Department's oversight capacity, the Office of Community and Worker Transition (WT) and Assistant Secretary for Environmental Management (EM) has requested that Contractor Workforce Programs (RL-CWP) review the supervisory structure of prime contractors at the Hanford site.